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TAGS: ECON EAID EINV ETRD MZ
SUBJECT: APRIL MONTHLY ECONOMIC WRAP-UP: MOZAMBIQUE

FOREIGN INVESTMENT

¶1. (SBU) With significant Mozambican official travel to China in April (President Chissano, Minister of Industry and Commerce Morgado, Minister of Labor Sevene, Minister of Agriculture Muteia, and others), the Government of China announced its willingness to support the building of mega-projects in Mozambique, such as dams, irrigation systems, and other projects to enhance socio-economic development. The Chinese are also interested in investing in the valuable Moatize coalmines located in Tete province and in rehabilitating the Mocuba textile factory in Zambezia. To formalize Chinese intentions and Mozambican willingness to cooperate, President Chissano and his counterpart, Hu Jintao, signed a new economic and technical agreement between the two countries. Under this agreement, there will be cooperation in the areas of agriculture, education, health, and mining. (COMMENT: China and Mozambique have been long-time allies and diplomatic partners. In the area of aid, China has built several governmental and military facilities for GRM use. The Chinese are bringing more and more operations to Mozambique in the areas of construction, mining, and agriculture. With this reaffirmed pact of cooperation, China could become an even bigger player in a greater number of sectors. This creates USG concern, as the GRM tends to turn a blind eye to illegal Chinese operations taking place in Mozambique, such as illegal fishing and deforestation in the central-northern regions. END COMMENT).

¶2. (U) A study is now underway to assess the viability of building a fuel pipeline from the port of Nacala to Malawi. According to Minister of Transportation, Tomas Salomao, the study will make recommendations to the Mozambican and Malawian Governments as to the viability of the project and the potential for the pipeline supplying Zambia and parts of the DRC. The building of the pipeline was recommended during the February 2003 Nacala Corridor's Investment Conference. (COMMENT: A similar fuel pipeline already exists in Mozambique's central region, traveling from the port of Beira to Zimbabwe. END COMMENT).

¶3. (U) The South African timber company, Komatiland Forests, has assumed control of the Manica Forest Industries (IFLOMA). Komatiland is expected to manage the 18,700 hectares and three production units of IFLOMA and will inject thousands of dollars into rehabilitation of infrastructure, acquisition of equipment, and in planting and operational services. Reactivation of IFLOMA is expected to create around 200 new jobs, according to the local press. Komatiland has promised to train staff and ensure local processing and export of its wood products.

MACROECONOMICS

¶4. (U) On April 15, Prime Minister Luisa Diogo launched the opening of the second Africa Partnership Forum of NEPAD. The USG representatives attending this forum were USAID Assistant Administrator for Africa, Constance Newman, and American Ambassador to Mozambique, Helen La Lime. Diogo stated that African countries can only solve their many problems if they work together, "complemented by support from their partners in the developed world" (AIM news report). Although most of the two-day forum took place behind closed doors, the themes discussed by African leaders and their cooperation partners (donors and funding agencies) were clear from Diogo's opening. The Prime Minister described the continuing issues of underdevelopment, poor economic performance, high levels of foreign debt, weak access to scientific and technological advances, and the prevalence of deadly diseases in Africa. She described the devastating impact of HIV/AIDS on Africa as a public health problem and a question of strategic and development security, partially negating efforts to train and retain skilled staff. According to Diogo, it is investment in education and training that will bring the continent out of its bleak social and economic state. Also crucial to this effort is a change in the rules of international trade,

allowing favorable conditions to developed markets for African goods. Lastly, Diogo mentioned the burden of Africa's foreign debt, saying that it has reached "unsustainable levels" with countries obliged to divert a large part of their GDP to debt payment. The Prime Minister called for greater debt relief and praised such steps as the World Bank/IMF Heavily Indebted Poor Countries (HIPC) debt relief initiative.

¶5. (U) On June 2-4, the World Economic Forum will host the Africa Economic Summit 2004 in Maputo, Mozambique. The summit will gather leaders from business, politics, and civil society, serving as a platform to rally key actors to address the major development challenges facing Africa. At the event, participants will engage in dialogue to advance the cause of Africa's integration into the global economy. The tentative USG representatives to this forum are Acting Assistant Secretary for the Bureau of African Affairs, Department of State, Charles Snyder, and Acting Deputy Assistant Secretary for Africa, the Middle East, and South Asia, Department of Commerce, Holly Vineyard.

¶6. (U) The Government of India cancelled all Mozambican public debt to India this month, amounting to about $3.8 million. According to local news reports, the Government of India also expressed willingness to discuss possible alternatives for dealing with private debt, estimated at $6 million. Under Mozambican law, one alternative would be to turn this debt into investment through a swap. Furthermore, India has made available a line of credit of $20 million, intended to promote projects that will import goods and services from India, thus tying the aid. In anticipation of this program, many Indian businesses are drawing up projects in such areas as rural electrification, pharmaceuticals, and food industries.

AGRICULTURE

¶7. (U) A recent study undertaken by the US NGO Technoserve revealed that Mozambique has significant potential for horticulture production in the central regions of Sofala and Manica. The NGO found that 550,000 hectares in the Beira corridor could be used in the large-scale production and exportation of fruit, vegetables, and flowers to markets such as England, South Africa, and Europe. Technoserve identifies and lends technical support to small-medium sized enterprises producing roses, pineapples, bananas, beans, citrus fruits, and vegetables. With appropriate help from the donor community, Technoserve estimates that $30 million could greatly improve the infrastructure situation that limits the volume that many producers are able to achieve. The major infrastructure needs include: improving the electricity network, expanding the water supply, building small dams, improving the rural road network, and establishing financial institutions that can provide credit to producers. Once infrastructure is improved, producers could increase capacity and export more to the world market. According to Technoserve, this is an activity that will bring profit to the Mozambican agricultural sector and small-medium sized producers.

MINERALS AND ENERGY

¶8. (U) There are positive signals that implementation of the Moma Heavy Sands Project will move forward as planned. Irish firm Kenmare Resources contracted South African engineering group Bateman and Australian joint venture partner Multiplex to build the Moma Titanium Minerals mine in Nampula Province, Mozambique. Kenmare estimates mine completion will take two years. Once operational, the mine will produce ilmenite, zircon, and rutile for export, intended to compete in the same market as South Africa's growing titanium coast at Richard's Bay. Kenmare stated that a debt-funding package is being negotiated with a lender group comprised of the European Investment Bank (EIB), the African Development Bank (ADB), a Dutch development finance institution, a German development finance institution, and South Africa's largest retail Bank, ABSA. The firm estimates the life of the mine to be more than fifty years and expects the project to generate revenue of about $85 million/year. According to Kenmare, sales contracts covering more than 50% of the first five years have already been negotiated. The entire project is budgeted at $360 million. (COMMENT: A similar mineral mining effort is underway in the southern province of Gaza, the Limpopo Corridor Sands Project. The Limpopo Sands Project is managed by Southern Mining Corporation (South Africa), Western Mining Resources (Australia), and Industrial Development Corporation (South Africa). Mozambique has tremendous potential in the mining sector due to the plethora of mineral resources found along the coastline. This sector is just beginning to gain momentum and could bring sustainable profits to foreign investors and Mozambique alike. END COMMENT).

BANKING AND FINANCE

¶9. (U) A bill amending the financial regulation of banks and other financial institutions was brought before the Mozambican Parliament in April. The bill tightens banking supervision and seeks to ensure that funds obtained illicitly do not enter the banking system. The bill hands regulatory powers previously in the hands of the government over to the Central Bank - the Bank of Mozambique. Thus, the Central Bank, rather than the Finance Ministry, would be given the authority to authorize new financial institutions, revoke such authorizations, permit or refuse mergers, and authorize the dissolution of banks and similar companies. The Central Bank is already empowered to freeze any account that it suspects to be used in criminal activities. Both the Legal Affairs Commission and the Planning and Budget Commission of the Assembly of the Republic fear the bill has gone too far in transferring power from the Finance Ministry to the Central Bank.

LABOR

¶10. (U) In April, the GRM increased the country's statutory minimum wage by slightly more than the 2003 inflation rate of 13.4%. Retroactive to April 1, 2004, the minimum wage for industry, services, and the civil service rose by 14%, from $41 to $47 per month. The minimum wage for agricultural works rose by 15%, from $29 to $34 per month. Although the hike in wages for agricultural workers was higher, there is still a significant gap between wages for different groups. The GRM is addressing this issue. In the private sector, wages above the minimum are generally fixed through collective bargaining between employers and trade union committees. In the public service, all wages are fixed by the government. Low wage state workers received a 14% increase, whereas mid-high wage state workers received only a 10% wage increase. This decision conflicts with the declared government policy of decompressing salaries in order to retain skilled staff in the public administration. The result may be a further migration of highly trained workers out of state employment into the private sector, foreign agencies or NGOs1). Each year, the statutory minimum wage is negotiated in a tripartite Consultative Council, between the trade unions, employers' associations, and the government. Negotiations went into deadlock after employers refused to negotiate higher than a 10% increase and the unions refused to move below a 16,9% increase. At that point, the matter was handed over to the GRM.

¶11. (U) On May 5, the USG will hold a Labor Seminar intended to present the results and analyses of several studies, commissioned by the US Department of Labor, on the labor system in Mozambique. The opening report will present a review of the labor law and recommendations for liberalization and reform; the second report will present the situation of industrial-based bargaining in Mozambique (the USG has provided significant training to Mozambicans in this area), and the third will address the similarities and contrasts between the Mozambican, Kenyan, Malaysian, and South African labor systems. The seminar will bring together Mozambican government officials, donors, private business organizations and employers, unions, and academia for discussion on these topics. (COMMENT: Mozambique will begin the process of revising its labor law in 2005. The current law is ambiguous, burdensome on employers, and discourages foreign investment. The USG hopes to continue its efforts, through the US Department of Labor and USAID, to move Mozambique's labor law towards greater openness and liberalization. Additionally, the USG is working with local business organizations to find ways to reduce HIV/AIDS in the workplace (Project Hope and Empresarios Contra SIDA). END COMMENT).
LA LIME